

Message Text

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47

ACTION EUR-12

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INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

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FM AMEMBASSY VALLETTA

TO SECSTATE WASHDC 6157

INFO AMEMBASSY LONDON

UNCLAS VALLETTA 0518

E.O. 11652: N/A

TAGS: ECON, EFIN, MT

SUBJECT: MALTESE POUND RISES TO RECORD PREMIUM OVER STERLING

1. REFLECTING THE GENERAL WEAKENING OF THE ENGLISH POUND, THE PREMIUM OF THE MALTESE POUND OVER STERLING HAS BEEN INCREASING IN RECENT WEEKS. DURING THE PREVIOUS YEAR THE PREMIUM WAS GENERALLY STEADY AT ABOUT ELEVEN PERCENT. ON MAY 13, THE PREMIUM OF THE MALTESE POUND ROSE TO EIGHTEEN AND ONE-HALF PERCENT, A LEVEL WHICH IS CREATING SOME ANXIETY AMONG MALTESE BUSINESS CIRCLES.

2. THE EFFECT OF THIS DE FACTO REVALUATION OF THE MALTESE POUND VIS-A-VIS STERLING HAS ADDED SIGNIFICANCE FOR THE MALTESE ECONOMY BECAUSE THE UK IS BY FAR MALTA'S MOST IMPORTANT TRADING PARTNER. IN 1974, THE UK PROVIDED NEARLY TWENTY-FIVE PERCENT OF MALTESE IMPORTS AND ABSORBED ABOUT TWENTY-NINE PERCENT OF MALTESE EXPORTS. SHOULD THE INCREASED DISPARITY BETWEEN THE TWO CURRENCIES BE OF LONG DURATION, THERE IS A DANGER THAT THIS WILL ADVERSELY AFFECT MALTA'S EXPORTS AND, IN TURN, FURTHER EXACERBATE MALTA'S ALREADY SERIOUS UNEMPLOYMENT PROBLEM.

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3. COMMENT: THE PARITY OF THE MALTA POUND IS BASED ON

A CLOSELY-HELD GOM "BASKET" FORMULA WHICH TAKES INTO
ACCOUNT THE FLUCTUATING VALUES OF THE CURRENCIES OF
MALTA'S LEADING TRADE PARTNERS. SINCE JANUARY 1974 THE
VALUE OF THE U.S. DOLLAR HAS BEEN INCLUDED IN THESE
COMPUTATIONS, ALTHOUGH U.S.-MALTESE TRADE IS RELATIVELY
SMALL. SMITH

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NNN

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